



10 January 1967

SUBJECT: Revised Proposal for Additional Work - Contract SP-1928

Dear Hazel,

The following comments are forwarded in relation to ADP's revised proposal for modification of three (3) additional U-2's and modification of seven (7) SAC U-2's plus four (4) sets of mod parts dated 27 December 1966.

a. An audit report for the actual work completed was not available for review.

b. The fourth paragraph of the contractor's letter implies that this is an incentive contract. As you know, this is a fixed price redeterminable contract for which a profit is a negotiable item at the completion of the contract. If this contract is indeed an incentive type contract, then the SPO recommends that terms and conditions of this contract be changed. The profit percentage of [ ] is considered to be excessive for this type of contract. The contractor assumes no risk. STATINTL

c. Sufficient information is not available to analyze the manhours quoted for this effort. Based upon the contractor's past history, the SPO feels that they are excessive. The contractor has repeatedly underrun this effort which is an indication that the dollars quoted have been overstated.

d. The contractor based his reduction in price on reduced overhead rates. Reduced overhead rates are not a direct result of the contractor's effort under this program. Overhead rates are usually based on the contractor's total business in house. Since the reduction in cost is from external means, we cannot concur in the profit figure quoted by the contractor for the initial seven airplanes and four sets of spare parts. The SPO feels that the profit figure should be negotiated when the total task has been completed and profit should be based on a percentage of total cost. We recommend a maximum of [ ] STATINTL

Sincerely,